

Message Text

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PAGE 01 BRUSSE 01045 01 OF 02 181414Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-08 INR-07 LAB-04
NSAE-00 SIL-01 TRSE-00 SS-15 SP-02 NSC-05 L-03
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LIMITED OFFICIAL USE SECTION 01 OF 02 BRUSSELS 01045

E.O. 11652: N/A

TAGS: EIND, ETRD, BDIS, BE, US

SUBJECT: MINI-CRISIS IN SODA ASH: BELGIAN GLASS INDUS-
TRY'S ATTEMPT TO SUBSTITUTE US SODA ASH FOR BELGIAN PRO-
VOKES GOVERNMENT INTERVENTION

1. SUMMARY. RECENT FUROR OVER POSSIBILITY THAT AMERICAN
SODA ASH MIGHT POTENTIALLY DISPLACE SOLVAY AS SUPPLIER TO
BELGIAN GLASS INDUSTRY HAS BEEN RESOLVED BY AGREEMENT BE-
TWEEN SOLVAY AND GLASS PRODUCERS, ACTIVELY ENCOURAGED BY
GOB, TO CONTINUE THEIR TRADITIONAL RELATIONSHIP. US FIRM
INVOLVED, FOOD MACHINERY CORPORATION (FMC), IS PRESENTLY
EXAMINING WITH LEGAL COUNSEL OPTIONS OPEN TO IT WITH
RESPECT TO LETTER OF INTENT IT SIGNED WITH BELGIAN GLASS
FIRM TO SUPPLY SODA ASH. EMBASSY BELIEVES GOB'S ACTIVE
ROLE IN AFFAIR COMES CLOSE TO UNDUE INTERFERENCE IN
COMMERCIAL TRANSACTION. END SUMMARY.

2. BOTH POPULAR AND SPECIALIZED PRESS IN BELGIUM HAVE
GIVEN PLAY IN LAST SEVERAL DAYS TO ANNOUNCEMENT BY
IMPORTANT BELGIAN GLASS FIRM VERLIPAK OF ITS INTENTION TO
BUY SODA ASH FROM FMC INSTEAD OF ITS TRADITIONAL BELGIAN
SUPPLIER, SOLVAY. PUBLICITY THAT HAS BEEN GIVEN TO AN
OTHERWISE ROUTINE COMMERCIAL TRANSACTION IS DUE IN LARGE
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PAGE 02 BRUSSE 01045 01 OF 02 181414Z

PART TO FACT SOLVAY INVENTED SYNTHETIC SODA ASH PROCESS
AND HAS WORLD-RENOWNED REPUTATION IN THIS FIELD. STORY
HAS BEEN PICKED UP BY FINANCIAL TIMES (JANUARY 17) AND
MCGRAW HILL BRUSSELS CORRESPONDENT HAS FILED STORY FOR
PUBLICATION IN FORTHCOMING BUSINESS WEEK.

3. NEGOTIATIONS BETWEEN THE THREE LARGEST BELGIAN GLASS-

MAKERS (VERLIPAK, GLAVERBEL AND SAINT ROCH), HELD UNDER AUSPICES OF GOB MINISTRY OF ECONOMIC AFFAIRS RESULTED IN AGREEMENT ON SUNDAY JANUARY 15 THAT THE GLASSMAKERS WOULD CONTINUE TO BUY THEIR SODA FROM SOLVAY. IN RETURN, SOLVAY REPORTEDLY AGREED TO LOWER ITS DOMESTIC SODA ASH PRICES TO MORE COMPETITIVE LEVELS. THERE ARE ALSO REPORTS THAT GOB MAY BE CONSIDERING UNDERWRITING MAJOR INVESTMENTS TO RENOVATE OUTMODED SOLVAY SODA ASH AND RELATED FACILITIES.

4. VERLIPAK ATTEMPT TO SWITCH SUPPLIERS WAS MOTIVATED LARGELY BY PRICE FACTORS. GLASS INDUSTRY CLAIMS THAT SOLVAY, BENEFITTING FROM QUASI-MONOPOLY OF SYNTHETIC SODA ASH MANUFACTURE IN BELGIUM, SELLS SODA TO BELGIUM CONSUMERS AT HIGHER PRICES THAN LEVELS PREVAILING ABROAD. SODA PRICE REPORTED TO BE 20 PERCENT LESS EXPENSIVE IN UK AND NETHERLANDS AND 24 PERCENT LESS EXPENSIVE IN FRANCE. DOMESTIC PRICE HAS INCREASED FROM 2,590 BF PER TON IN 1972 TO PRESENT 4,700 BF PER MT. TO ATTEMPT TO BREAK SOLVAY'S GRIP ON BELGIAN MARKET, VERLIPAK SIGNED LETTER OF INTENT WITH FOOD MACHINERY CORPORATION TO BUY 100,000 TONS OF SODA, A SUBSTANTIAL PORTION OF TOTAL 240,000 TONS OF SODA ASH USED ANNUALLY BY BELGIAN GLASS INDUSTRY. SINCE SODA ACCOUNTS FOR 80 PERCENT OF RAW MATERIAL COSTS IN GLASSMAKING AND 15 PERCENT OF OVERALL GLASSMAKING PRODUCTION COSTS, CHEAPER SODA ASH WOULD LIMITED OFFICIAL USE

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PAGE 03 BRUSSE 01045 01 OF 02 181414Z

MATERIALLY ASSIST INDUSTRY'S INTERNATIONAL COMPETITIVENESS.

5. FOR ITS PART, SOLVAY CLAIMED THAT LOSS OF VERLIPAK ACCOUNT WOULD NOT ONLY JEOPARDIZE EMPLOYMENT AT ITS SYNTHETIC SODA FACILITY BUT ALSO ENDANGER PRODUCTION AND EMPLOYMENT AT ITS NEARBY CAUSTIC SODA FACILITY. HIGH PRODUCTION COST IS AT LEAST PARTIALLY ATTRIBUTED TO ADVANCED AGE OF SOLVAY'S SODA ASH FACILITY, WHICH DATES FROM MID-19TH CENTURY.

6. GOVERNMENT'S STRONG REACTION TO POSSIBILITY OF DISPLACEMENT OF BELGIAN SUPPLIER BY A US PRODUCER OF BASIC INDUSTRIAL RAW MATERIAL WAS MOTIVATED BY ITS CONCERN TO MAINTAIN LEVEL OF INDUSTRIAL ACTIVITY AND ITS SENSITIVITY OVER UNEMPLOYMENT. WE WOULD ALSO WAGER THAT PROSPECT OF BELGIAN SUPPLIER BEING DISPLACED IN A FIELD IN WHICH BELGIUM HAD AT ONE TIME CLEAR TECHNOLOGICAL SUPERIORITY ALSO STUNG GOB ECONOMIC POLICYMAKERS INTO TAKING ACTION.

7. ALTHOUGH WE HAVE NOT RAISED ISSUE WITH GOB, ACTIVE GOVERNMENT INTERVENTION INTO THIS COMMERCIAL TRANSACTION

STRIKES US AS A POSSIBLY UNDUE GOVERNMENT INTERFERENCE IN
TRADE. FMC HAS TOLD US THAT THEY ARE EXAMINING SEVERAL
OPTIONS WITH THEIR LEGAL COUNSEL AND HAVE NOT YET DE-
CIDED ON WHAT STEPS TO TAKE WITH RESPECT TO THEIR LETTER
OF INTENT WITH VERLIPAK WHICH FMC CONSIDERS TO BE A
BINDING CONTRACT. IN THIS RESPECT, WE WOULD APPRECIATE

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PAGE 01 BRUSSE 01045 02 OF 02 181413Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 BRUSSELS 01045

STATE AND COMMERCE VIEWS ON ADVISABILITY OF RAISING
MATTER WITH GOB. CHAMBERS

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